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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the third quarter earnings conference Call. (Operator Instructions) As a reminder, this call is being recorded on Wednesday, November 8, 2017.

Now I'd like to turn the call over to Grace Pollock. Please go ahead, ma'am.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director of IR*

Thank you, Tommy. Good day and welcome to our third quarter conference call. All our Q3 documents, including press release, slides for this conference call, MD&A and supplementary information package are posted in the Investor Relations section of our website at ia.ca.

This conference call is open to the financial community, the media and the public. I remind you that the question period is reserved for financial analysts. A recording of this call will be available for 1 week starting this evening. The archived webcast will be available for 90 days and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statements at the end of the slide package. A detailed discussion of the company's risks is provided in our 2016 annual report that is available on SEDAR or the iA website.

I will now turn the call over to Yvon Charest, President and CEO.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Good afternoon, everyone, and thank you for your participation. With me today are Normand Pépin, Assistant to the President; René Chabot, CFO and Chief Actuary; Michel Tremblay, Chief Investment Officer; Denis Ricard, Head of our Individual Operation and Dealer Services; Renée Laflamme, who runs our Group Insurance and Wealth businesses; Mike Stickney, Head of the U.S. operation; and Carl Mustos, responsible of our Mutual Fund operations.

So this is turning out to be another good year for iA Financial Group for both top line and bottom line results as well as for acquisitions. For year-to-date, our core EPS is near the top of our guidance. Our book value is up by 12% over the last 12 months, and we just increased our dividend on common shares by 9%.

I'm also pleased to report the excellent progress we made this quarter in the expansion of our financial services network in both Canada and the U.S. through strategic acquisitions. As expected, we closed the HollisWealth transaction at the beginning of August. Advisor retention has been excellent at 99% and some $33 billion in AUA were transferred to our platform. This begins a new era for us as one of the largest nonbank wealth management advisory firms in Canada. Carl Mustos will be overseeing the distribution network made up of our own affiliates as well as independent channels.

In the U.S., we've been looking to expand our footprint by acquiring a business in our existing personal line niche or in a new business segment. In September, we signed an agreement to acquire a U.S.-based company that manufactures and distributes extended warranty for vehicles. This is a business that we know well, over 20 years of operating experience in Canada. Our goal is to leverage that know-how to take advantage of opportunities for growth and consolidation in the U.S. market, which is 10x the size of some of the same Canadian space.

As for organic growth, 2017 is also turning out to be an excellent year. In retail wealth, fund flows continue to be strong with net seg fund sales still outperforming the industry. For the year-to-date, net fund sales total more than $700 million versus outflows of $200 million plus in the same year -- in the same period last year.

In our group operations, all 3 insurance segments delivered solid top line results. We are seeing the same trend for the 9-month period. So this is good for Employee Plans, Dealer Services and Special Markets.

On the wealth side, the top line also showed good progress for the year-to-date. And of course, our Auto and Home insurance business continue to perform well, with strategic partnerships contributing a good share of the growth.

As for Individual Insurance, overall sales are down year -- down a year over, mainly because of the tax change that took effect on January 1. However, in term of number of policies sold, our market share is up by more than 1% over last year, which speaks to our strength in the family market.

In the U.S., sales are down following some product changes, but we continue to add new IMOs, which are bringing in new production.

So this concludes my comments today. I will now turn it over to René.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Good afternoon, ladies and gentlemen. Q3 was an excellent quarter with report and core EPS of $1.35, which is the top of our guidance. I am especially pleased to note that core EPS was up 5% over the same quarter last year that was especially strong. The quarter's item of note shown on Slide 9 were all within the normal range and basically canceled out to 0.

On Slide 10, we present our policyholder experience by line of business, excluding market impact and HollisWealth integration costs. You can see it was a very clean quarter with all lines of business delivering close to expectation.

Individual Insurance had an in-line quarter despite adverse lapse and some market impact. These were totally offset by favorable mortality and morbidity and various other gains. Strain on new business came in at 5%, which was a little higher than expected for the quarter because of lower sales volume, which reduced EPS by $0.01. For the year-to-date, our strain ratio is 5% versus guidance of 6% for the year.

In Group Insurance, our Special Markets segment report higher claims for critical illness, travel and medical in our Special Markets segment that cost $0.01 in earnings. In our wealth management sector, retail wealth report hedging gains of $0.05 that completely offset the HollisWealth integration cost, adverse longevity and the impact of lower market growth than expected.

Group wealth report a loss of $0.01 for adverse longevity.

Income on capital contributes $0.05 to our result this quarter. In addition to a gain of $0.04 on the sales of a real estate, iA Auto and Home reported a strong quarter after a challenging start to the year, which added $0.01 to our results.

Our solvency ratio at quarter end was 213%, reflecting completion of the HollisWealth acquisition, partially offset by the favorable impact of macroeconomic condition in the quarter. Taking into account the recent acquisition of DAC in the U.S., the ratio would be 205%.

I would like to end with a few comments about our year-end review. As previously communicated, I want to reiterate that we intend to reposition our lapse assumption at year-end. We believe that the update is expected to have minimal impact on our Q4 results because of 3 positive elements we have available to offset the lapse strengthening: that is the introduction of a new mortality improvement table in 2017; favorable positioning on our URR, with respect to the new prescribed rate; and investment gains during the year from active management of our portfolio.

Until the year is over and the review of all our assumption is totally complete, we are unable to provide you with any further information at this time. Final result will be reported on February 15, 2018.

That concludes my comments. Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll proceed with our first question on the line from Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Just a quick one for René. I noticed your IRR sensitivity is down from $23 million or to $15 million now. Is there anything there that changed that? Or what caused the change?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Yes, Gabriel. Basically, we decide to make some forward looking here in term of action on our asset liability matching. We know that there is a new capital formula coming in next year, and we are encouraged in that capital formula to better manage our interest rate risk because it's going to help us at the end in term of capital management. So basically, we decide to take advantage of this and prepare ourselves to that new environment. At the same time, we also look forward to the new-coming accounting rules 3 years down the road, and we also basically prepare ourself to that element. So that's basically what you see this quarter in term of change. It's a bit of a preparation to the new-coming environment and to capture opportunity that is available to us.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So what I heard from that was, I think, reduced ALM mismatch partially? But then, how do the new capital -- how does the LICAT affect this?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

The LICAT measure your capital according to the level of risk you have on your new balance sheet. So basically, the fact that we reduced that interest rate risk help us in reducing our overall capital with the LICAT. So this is what you have to keep in mind, and this is basically what we are taking opportunity of.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. I'll have to follow up with you on that.

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

You should continue see a decrease of that element over the coming years.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. I'll have to follow up with you off-line on that one. The Individual Insurance business, so it's your biggest. It's about 60% of profits and it's had negative growth this year partially because of -- or primarily because of negative experience items. And I guess there's a big focus on the amount of lapse charge you're going to take this year, and that's not a positive development. But the silver lining is that next year, we should see little to no noise from lapse-related experience losses in 2018. So should we -- I mean, this is quite a bit of forward-looking stuff, but should we expect that business, your biggest business, to resume positive growth next year if we just eliminate the lapse headwind?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Gabriel, what's going to happen is that presently, you have seen the first 3 quarters of this year, we had some lapse losses. So the thing we're going to do at year-end, the objective is to basically eliminate these lapse losses from our situation.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. But yes, so the $0.18 negative lapse experience you're -- whatever, it's going to be in Q4, you're aiming to eliminate that? And I just want to make that clear, right?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

That's the purpose of the reason why I mentioned to everybody that we're going to reposition the lapse assumption at year-end. The objective is to eliminate as much as possible these lapse losses.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Now about the LICAT and one of the reserve releases, it sounds like a reserve release, is the economic assumptions or investment return assumptions, I believe that's what you're talking about of the 3 items that lost at the lapse charge. And in 2016, you went through some detail on how you've repositioned the portfolio, and extending duration and moving into AA and A bonds, I believe, was part of it as well. Those are areas that -- or those are investments where the capital charge is moving up quite substantially under LICAT. So are you kind of capped out in terms of how much more you can allocate to these types of investments, actually the big -- pretty big increases in the AA category anyway?

Michel Tremblay - *Industrial Alliance Insurance and Financial Services Inc. - CIO and Executive Vice-President*

Gabriel, it's Michel. Are we maxed out or capped out at this moment, I would say that it's more impacted by the spreads available in the marketplace than anything else. You see our capital ratio is we have some room there again. And this year, we've been able, so far, to generate a lot of management actions without increasing too much the credit risk. So at this moment, if, let's say, credit spreads remain where they are, we're not capped out at all. And with respect to interest risk, as René mentioned, the capital associated to interest risk is very penalizing with LICAT. So that's why we decided to take action. And if the yield curve, the swap spread, the provincial spreads and the rates stay where they are right now, we still have some room.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

And just last one, housekeeping. Are you planning on issuing any prefs or debt to help finance the DAC acquisition?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

No, this is not the intention at the moment.

Operator

And we'll get to our question on the line from Meny Grauman with Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

A question on the DAC acquisition. First question, just what's the next logical step for you in the U.S.? Is it to build out the same kind of suite of products that you have in Canada in terms of financing or insurance or other ancillary products? How do you see the opportunity there on the basis of this first transaction?

Michael L. Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of US Development*

It's Mike Stickney. Yes, I see the first step is just closing the transaction. We expect to close it in January and moving forward with the existing suite of products, which are primarily warranty products or P&C products and working with those products and management through the next year or so. And beyond that, I guess we'll work out next year.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Is there any cross-border interplay between the 2 businesses? Are they really totally separate? Is there any synergies or ability to work together across the border?

Michael L. Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of US Development*

Yes, I would say there are some synergies. Not so much on the marketing side. I mean, most of the market, we're marketing to car dealerships and so on, where they're individually owned, whether it's in Canada or the U.S. But obviously, we're showing up with a fair amount of knowledge about this market. It operates fairly similarly in Canada and the U.S. So we're, I would say, able to contribute to sort of management of the business and the products going forward pretty quickly. And then there's other synergies that are what I would describe as more corporate synergies that we saw them come into play or we've seen them come into play with American-Amicable. I think probably the smaller privately owned companies, typically are capital constrained. Obviously, we've got access to capital. We expect to get a rating upgrade, which will help us in the marketplace and so those sort of things. I guess also financial management, investment management, we're going to have a fairly active role in that as well. So all those things, I think, add value over time.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then just if I can ask on iA Auto and Home, just an update in terms of pricing there and specifically in the context of claims inflation severity, if you can update?

Normand Pépin - *Industrial Alliance Insurance and Financial Services Inc. - Assistant to the President*

I mean, we had a quarter like we were expecting. So iA and Home or Auto and Home in term of severity or frequency was about what was expected. We have increased our premium, but that has not had a big impact so far because we're just implementing that increase in premium. So that we hope also we're going to help next year. So, so far, I mean, this quarter, it's like, we were expecting.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Do you expect the sales pace to slow, given the price increases? Or are there offsets that you believe can continue?

Normand Pépin - *Industrial Alliance Insurance and Financial Services Inc. - Assistant to the President*

This have to be seen, but we had, in fact, a 3, ways of selling the iA Home and Auto products. All of them, they're still doing fairly well. So I don't see much of an impact on the sales going forward.

Operator

And we'll get our next question on the line from Nick Stogdill with Crédit Suisse.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

If I could go back to the DAC acquisition and just the accretion numbers for 2018 and 2019; relatively modest. Are you including any integration costs in those numbers? And then, Mike, you talked about the synergies maybe at the corporate level. Are you baking any of those into the accretion numbers for 2018 or 2019?

Michael L. Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of US Development*

I guess, first of all, on the accretion. It was in our press release. We said $0.05 in 2019, which obviously is, let's say, net income of $5 million to $6 million. You have to remember we're deducting in the accretion calculations, amortization of intangible and the cost of capital and so on, so it has a material impact, to say the least. And I guess on your second question. Yes, we have factored in some synergies, not a huge amount, but in terms of improvement on investment income, we certainly factored that in.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

And if you were to -- I mean, you talked about doubling and this is double the scale of your business. If you were to do further acquisitions, would you expect further scale benefits from getting even larger in this space?

Michael L. Stickney - *Industrial Alliance Insurance and Financial Services Inc. - EVP of US Development*

Well, absolutely. I mean, it's a business where you can add a fair amount of volume and not that cost. So I think there's good scale opportunities, given the right opportunity.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

So would be like a step function up, okay. My next question just on the individual wealth management; a good improvement in the expected profit. Is that entirely being driven by HollisWealth on a sequential basis? And is this maybe a new run rate level with the acquisition if markets are steady?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It's both related to the HollisWealth as well as the IA Clarington. All our units basically contribute positively to that delivery in term of year-over-year increase.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

And sequentially, would the move up be mostly HollisWealth?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It's not just HollisWealth. It's HollisWealth, all our other mutual fund distribution businesses, our retail annuity businesses as well as IA Clarington. It's the 4 them.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then just one more quick one on the -- there was a small experience loss in Special Markets Solutions. Is that related to the same issue we saw last quarter? Or is it something unrelated?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

No, this is something unrelated. The last quarter, we have -- we mentioned that we have changed the price of the contract that was involved. This quarter, it's a different situation and it's within what I would call normal fluctuation we may have in that business.

Operator

We'll get to our next question on the line from Thomas MacKinnon with BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Just a question with respect to strain. I know you're not giving 2018 guidance, but is there any reason to suggest that the 2018 level will not be that much dissimilar from the 2017 levels, just, of course, after recount for the bump-up in sales that we had in the first quarter of 2018 -- or 2017?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Tom, you will have to wait next quarter and then we'll give you the answer.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Are we -- do you still expect that percentage to be below 10%?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Yes, I do.

Operator

And we'll get to our next question on the line from Doug Young with Desjardins Capital Markets.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

I'll be quick. First on HollisWealth, you indicated, I guess, when you did the deal, it was going to be $0.05 accretive 2019. You indicated that everything seems to be progressing well. Any change to the outlook on accretion?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Not at the moment.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Perfect. And just back to the P&C insurance side. I think we've had many quarters where there has been challenged results. I think, Yvon, you mentioned putting in place an action plan to focus more on the bottom line than the top line, but I don't think the details were outlined. Can you give any more details on the actions that you're taking in the P&C side just to improve results? And I do appreciate it's all in Québec, but anything on that side would be helpful.

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Yes, well, it's all in Québec in personal lines and you know why it's quite clear what we have to do. We had to increase prices, so we have increased our prices twice. And what is good is that as Normand Pépin mentioned, those price increase were implemented in spring and August, which mean that they have not impacted our Q3 net income. So it means that Q3 net income has been as expected, and other thing being equal, we should expect better revenues in the quarter to come. So there is no magic. Most of it is price increase, and there has been some action as well on claims management.

Operator

We'll get to our next question on the line from Mario Mendonca with TD Securities.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

René, can you help me think through what's happening in expected profit? Not just this quarter, but in a lot of quarters. What I'm getting at is not so much the growth in the absolute number, but what I'll call the margin. And I'm thinking about expected profit to assets or in-force premiums or you pick whichever you like. That improvement has been fairly strong and it's been going on now for a little while. Could you help me think through what would be driving that improvement? Like I'm thinking pricing, improved skill, efficiency gains, mix of business, a shift toward higher-margin business. There's a number of factors that could be at play here. Can you help me think through which ones are the relevant ones?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

There's many in the process, Mario, as you know. I would say 2 key -- I would probably get back to the bucket situation we presented you at the Investor Day, basically. So we are basically following that plan, executing that plan. And we are making acquisitions, as you see, and these acquisitions start building up in the process. And we also improve the result of these acquisitions, too. So that's the case in the U.S. where Mike has improved significantly the result of that operation. So basically, it flowed to the expected profit on in-force. So that's the main reason of this. Improvement -- single improvement in each of our lines of business, basically, as well as acquisition, strategic acquisition that just deliver on the case. Group Lihe and Health was also another element, where we know that we have difficulty 2 or 3 years ago, and we have worked very intensively in that market segment. And we are just capturing the benefit of all these actions that we have done, the same with mutual fund. We turned negative net sales to positive net sales, and we start seeing the impact. So there's lots of different pieces at work here that's all combined, generate basically that good expected profit on in-force growth. And to be honest, it was quite expected. You see that quarter, we had 16% expected profit on in-force growth. And what pleased me a lot is the fact that this quarter, we didn't have any policyholder issue, basically. The gains are almost there in every segment, which mean that it's solid expected profit on in-force growth and no losses, so no stretch. So that's the best way, I think, I could answer your question.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

Okay. So let me just drill down a little bit then. So the one segment where we've seen the most significant increase in, again, what I'll call the margin, the expected profit margin, is in individual wealth. That's the one segment, of course, where there have been some deals and also where the company has turned net flows positive. So what are we seeing there? We're seeing an improvement in the fundamentals of the business which are, what, driving efficiency gains? Is that fair?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

We are seeing more and more contribution from our distribution arms. These businesses has grown significantly. You see it through the AUA that has grown significantly. And you see that these units are generating more and more profit. Each of them, individually and combined, it's targeting very attractive amount of money. You see the same also -- and I am repeating myself, you see the same also with IA Clarington as well as our retail insurance operations. So all these 5 to 6 line of businesses that contribute to that (inaudible) were all positive in the right direction, and that's the reason why it's so strong.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

Okay. So final question, but related. These improvements, I've gone back and tried to find periods like this, and you'd be hard-pressed to find periods this good. Is this something that is -- like, are there things in your action plan, going into 2018, that will support the sort of improvement going forward? Or would it -- or should we be impressed if you can just maintain this level of expected profit margin?

René Chabot - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It show also, Mario, that market had been quite good in that period of time, too, so that's another element that contributed to it. What make us positive for 2018 is the fact that we just made a very important acquisition, which is HollisWealth. And we haven't had materialized all the benefit of that acquisition. So we are still working and making at getting all the value out of it. And we have now a very strong affiliate network. And with that very strong affiliate network, we do believe that we could get even more interesting result out of it. It still has to be demonstrated, but that's the way the management team work right now. They try to capture the value out of it.

Operator

And we'll get to our next question on the line from Sumit Malhotra with Scotiabank.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

I want to pick it up on the individual wealth as well, probably for Carl to start. Just on HollisWealth to get going, I'll do qualitative before we get into the numbers. It's been -- I think you closed this thing in early August. We see the integration charge in line with what you had told us this quarter. But from an operational perspective, bringing this new team aboard, how has it been from an early-days integration and sales perspective for this business that you've now had for about 3 months?

Carl Andrew Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Great. Thanks for the question, Sumit. Well, we did the -- we closed the transaction early August, and we're pleased to say that the big bulk book of record came over really cleanly -- came over very cleanly. So that was a big accomplishment. There's still work to be done. There's a lot of change for these advisers, and we appreciate their patience as we -- as they adapt to this change, but it's gone very well. And as Yvon mentioned earlier, we've had about 99% retention rate to date. So qualitatively, it's been a -- it's a big, big project, but it's going well to date.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And then if I bring that into the numbers. When I look at your gross flows, I guess I could say the gross or net on the mutual funds side, obviously, it's been a big improvement over the course of last year. And I think this was referred to in the last set of responses, the turnaround and flows has been a big benefit to overall profit in this segment. But you did have a noticeable decline in your gross sales and mutual funds. And I know it's early days, but anything boosting your distribution, I would have thought would have helped that number. So is -- I don't want to make too much of 1 quarter, but if you could give me a little bit of color on what you're seeing on gross flows. Is that iA specific or more in line with what is happening in the industry?

Carl Andrew Mustos - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

That's a good point. It's really early days on the Hollis to have any sort of visibility on that because keep in mind, it was in the summer. And as you know, the industry itself, they had a pretty weak Q3. So I think what you're seeing with our sales there, it's more a broad reflection of a softening marketplace for mutual fund sales. I will say that overall our affiliates' sales continue to grow at a nice pace. Certainly, we see the Hollis integration in that respect.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

I'm sorry, I thought somebody else was adding in there or is that -- oh no, that's it, okay. So Hollis, we'll come back. We'll track that going forward. And my other question, when I look at Group Insurance, probably for, Denis. Your growth trends -- top line growth trends in Group Insurance have been very strong when we look at this quarter. One area we haven't talked as much about and certainly, has slowed in terms of -- its trend over the last year or so has been on the loan originations and Dealer Services. And big picture here, when I think about the strength in the Canadian economy and how good employment has been, credit quality when we're looking at lending numbers, if you could give me an update on what you're thinking with respect to loan originations. There's been a number of quarters of decline, and is this strictly a reflection of where your risk appetite is in this business? Or are there certain factors you don't like that has caused you to take your foot off the gas? No pun intended there.

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

Well, it's pretty easy here. We've decided, it was in Q2, to basically -- we terminated, let's say, the -- our business of the prime business, okay. So before that, we used to originate both prime and nonprime business. And so since then, we only originate on the nonprime side. And so the nonprime side right now is growing very, very significantly compared to last year. This is where we want to grow because on the prime side, the margins were just too small. And so that's basically the strategy that we're taking here.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

So last 2 quarters, you've -- it's pretty flat numbers, so about $65 million. So all of that now is the nonprime that's being originated?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

Well, certainly for Q3, but there is still some leftover of the prime side on Q2.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Okay. So fair to say that you think the absolute origination level has bottomed out here and we should expect to see an improvement in this number going forward?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

Absolutely.

Operator

(Operator Instructions) And our next question on the line from line of Paul Holden with CIBC World Markets.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

I have a couple of questions for you on the vehicle warranty business. So first one basic question is sort of what proportion of your warranties would be for newer vehicles versus older vehicles?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

Well, Denis Ricard here. For Canadian business, I mean, the majority of our business is for the used car because as you know, there is -- the warranty coming from the OEM, the manufacturer. I don't have the number with me right now, but I would see, I mean, the bulk of our business is on the used car. And keep in mind that the used car, most of the used car business is being sold by franchised dealerships, so it comes out of the franchisee.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. So you wouldn't see the trend yet, but apparently, there's a trend in the industry with newer vehicles that the cost of replacement parts is escalating much quicker than anyone would have anticipated because of cameras and sensors, et cetera, that are being put into vehicles. So my question would be how do you think about that trend today? And what, if any, plan do you have in mind to help get in front of it as you price warranties for those types of vehicles as they start pooling into the used car pool?

Denis Ricard - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

Interesting you mentioned that because we had some issue in the past with a luxury brand in Canada, which, in fact, we were losing money. So we -- it's a pricing game. At the end of the day, you look at your claims and you look at the price you charge and you just want to make sure that it makes sense. But it's getting, as you say, more expensive because there's more computers within the cars nowadays. It cost more to repair, but it's a pricing game.

Paul David Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. Okay, that's helpful. And then final question then, I guess, would be for Yvon. Given the capital that you've deployed already, how do you think about your priorities in capital deployment geographically? Is U.S. still a priority over Canada?

Yvon Charest - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

That is a priority over Canada, I would say that we are still focusing on growing 2 businesses, wealth management in Canada and continue to build on the 2 business segment where we are in the U.S. So I will not take -- I would not say one is ahead of the other. We'd like to grow both.

Operator

Ms. Pollock, we have no further questions on the line. I'll now turn it back to you.

Grace Pollock - *Industrial Alliance Insurance and Financial Services Inc. - Director of IR*

So this will conclude our conference call today. If you have any further questions, you can reach us at (418) 780-5945. Thanks for participating.

Operator

Thank you very much. And, ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask you to disconnect your lines. Have a good day, everyone.